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THE PRESSING NEED: INDUSTRIAL CONSCRIPTION

BY HAROLD G. MOULTON

THE conduct of war on an extensive scale is invariably accompanied by a rapid rise in the cost of living. The increase in prices is not confined to supplies that are required in great quantities by the armies in the field; it seems to apply with more or less severity to all classes of goods,—to practically everything that enters into the general consumption of the people. The high cost of living therefore becomes one of the most acute of the internal problems connected with war; and the regulation of prices in the interests of the masses is regarded as one of the most important duties of the Government.

There appear to be two lines of reasoning,—perhaps one might better say two sorts of reactions—that favor Government control of prices. One is a popular argument and the other may be called for want of a better term, a “scientific argument.” In the view of the general public high prices in war time are in considerable measure the result of manipulation by traitorous malefactors who take advantage of the Government’s needs and the public’s ignorance and lack of organization,—who reap where they have not sown, who make fortunes, indeed, without rendering any equivalent in service to society. The control of prices in the interests of the many as against the machinations of the few therefore makes a very simple and elementary appeal to our notions of right and wrong, to our sense of plain fairness and justice. Closely associated with this reason for price control is the idea that large profits should not be permitted, even when they do not result from manipulation, monopolizing or unfair practices, for the simple reason that it is unpatriotic to reap advantage in any way from the Government’s needs.

"Profiteering" becomes in war time a new form of evil, one which should be suppressed with a strong hand.

The more carefully reasoned argument for price control recognizes that the causes of rising prices cannot be wholly ascribed to the machinations of speculators, traders, middlemen and monopolists, or to an enormous Government demand; that they depend, indeed, in considerable measure upon fundamental underlying conditions—upon the demand for and supply of commodities in general, or as some would prefer to put it, upon the quantity of money and credit available for purchasing such goods. But the "scientific" argument for price control does not depend upon the causes of rising prices; it merely accepts the fact of high prices, and uses this fact as a point of departure. The real arguments are, first, that the high prices which the Government has to pay for the materials it needs greatly increases the money cost of the war and necessitates a heavier burden of taxation than would otherwise be required. Second, the high prices that the public is compelled to pay for commodities that enter into general consumption result in lowering the standard of living of the masses, in consequence of the failure of wages and salaries to advance with equal rapidity. This loss of consuming power falls with unusual severity upon people of moderate incomes,—upon those least able to stand the burden,—and hence is one of the most important of the indirect burdens of war. Indirectly, these losses may be regarded as *costs* of the war, costs which fall in inverse ratio to ability to pay, thus violating the most fundamental principle of just taxation. Price control is therefore a necessary corrective of the inequalities of war burdens.

Pushing this economic argument still further, price control is necessary in order to prevent the poor from having inadequate consumption of wealth. The masses of society must be kept above the level of mere subsistence, in order that all may be physically efficient and mentally alert for the onerous business of war. Indeed, when a nation is pressed to the wall in a war of attrition, price control, together with a distributive dictatorship for the necessities of life, becomes an indispensable agency for equalizing wealth,—for parceling out the national store of goods in accordance with the physical requirements of people rather than according to the fatness of their respective pocketbooks; thereby postponing as long as possible the date of final exhaustion.

Finally, price control has its political purpose. Just distribution of the burdens of war and alleviation of the economic pressure upon the lower classes serves to suppress the rising tide of discontent and internal dissension; it helps to maintain a united front and to buttress the courage of all classes at home; while at the same time it affords small comfort or hope to the enemies abroad. In a prolonged struggle it is indispensable as a means of maintaining the morale of the people.

The agitation for the regulation of prices usually develops rather late in a war; but in the present conflict we are beginning very early not only to agitate the question but also to develop the machinery necessary to effective control. This is in part owing to the world wide effect of the long continued struggle in Europe, the enormous rise in prices abroad having found concurrent reflection in the United States during the past two years; and in part it is due to mere imitation of the policy of the nations of Europe.

It is the purpose of this paper to direct attention to some serious dangers in connection with price regulation in the form in which it will likely be developed in the coming months. There are two sorts of problems in connection with price control,—one relating to the effective enforcement of the provisions of law, and the other relating to the industrial (and military) effects of such regulation. It is not a part of my present purpose to discuss routine problems of administration; nor is it my intention to discuss *all* the consequences of price regulation. I shall confine the discussion to the relation of price regulation to the rapid mobilization of our industrial resources for the business of war. In order clearly to reveal the problems involved it will be necessary to outline first the industrial requirements of the present situation.

In all ordinary wars the problem of industrial mobilization is comparatively simple. It involves, first, raising revenue for the Government. This revenue is then expended by the Government for war supplies—ships, munitions, and materials. These supplies are in part purchased abroad, and in part from domestic producers,—from already existing industrial establishments whose ordinary peace-time production is of a kind identical with the Government's needs, or so nearly of the Government pattern that only a relatively slight reorganization of the industrial process is required. But the present conflict is unusual in two important respects,

in consequence of which the problem of industrial mobilization is essentially different from what it has been in previous wars.

In the first place, it is impossible for the United States to receive any appreciable aid from outside,—that is, from other countries. Most of the world is at war and the available supplies of the remaining “ neutrals ” are already mortgaged to other belligerents. In consequence, the ships, munitions, supplies and food required must all be produced by the current energy of the American people. As a nation we cannot borrow the sinews of war from outsiders on our promise to pay them back at some future date. We cannot therefore in any real sense pass the burdens or costs of war on to the next generation. The *things* with which we are to fight must be produced and paid for as we go.

In the second place, the present conflict is being conducted on so tremendous a scale that the supplies required during the first year of the war cannot possibly all be produced by the usual process of utilizing existing steel plants, clothing establishments, ship yards, etc., for the manufacture of war materials. The Allied Governments are planning to spend nearly \$20,000,000,000 in the markets of the United States during the current year for war supplies. Can we produce \$20,000,000,000 of supplies from existing munitions plants and from other factories that are readily adapted to the production of war supplies? The answer must be an unqualified, an overwhelming negative. Let us take some particular type of war material, such as iron and steel, and ascertain if we have a sufficient number of factories to produce the quantities required. The recent report of the plans of the United States War Department show that the Department should raise for the fiscal year ending June 30, 1918, \$5,917,878,347.98 of revenue. The items enumerated call for iron and steel for ordnance stores and ammunition, for automatic machine rifles, for armored motor cars, for armament of coast fortifications, for submarine bases, for submarine mines, for aeroplanes, etc. It is impossible from the data furnished to estimate precisely what percentage of the huge total must be spent for iron and steel, but on the most conservative of estimates it appears that the War Department wishes \$2,000,000,000 for iron and steel products. But to this total must be added the enormous amounts required for the emergency fleet and for the navy's new war-

ships, cruisers, submarines, destroyers, etc. The emergency fleet must be as large as we can possibly make it; for it appears more and more that the success of the Allies primarily depends upon the number of ships that we can furnish within the next year or two. Finally, we must still add to the total of iron and steel demanded the great quantities of structural steel required for the upbuilding of the shattered and inadequate transport and industrial equipment of France and Russia; and the enormous supplies of munitions that our Allies must have before the grand offensive can hope to succeed. For the fiscal year ending June 30, 1917, we exported \$1,100,000,000 of iron and steel products.¹ Should we do less now that our strength is definitely and officially cast in the scales against Germany? Can we hope to break the power of the Hohenzollerns unless we employ against them vastly greater quantities of iron than has yet been used? Certainly the war has taught that defensive trench warfare can be overcome only by the use of unlimited steel. Costly as this steel may be, it is, still, less costly than man power, than the human lives that would otherwise be sacrificed before the war could end.

What now do these totals of iron and steel aggregate? It would appear that they cannot possibly equal less than \$4,000,000,000 of steel products, to be produced in the United States this current year. This is but twenty per cent of our contemplated war expenditures, twenty per cent of the total for the most indispensable of all war weapons. It would seem from these rough estimates that \$4,000,000,000 is a very conservative figure. But after all we need not concern ourselves with exact figures. It is enough that we should have as many billions of iron and steel manufactures as we can possibly produce, in order that the war may end in the shortest possible time.

Let us now inquire if we have munitions plants in sufficient number to produce \$4,000,000,000 of iron and steel for war purposes. According to the Statistical Abstract of the United States the total value of all manufactures of iron and steel products in 1915 was \$1,236,318,458.² The figures for 1916 are not yet available, but estimates indicate that the total will hardly reach \$1,800,000,000. It appears,

¹ O. C. Austin, Statistician for The National City Bank, New York: *In the Americas*, Vol. 8, No. 10, p. 81.

² Statistical Abstract of the United States [1916] p. 718.

therefore, that if *all* the manufacturers of iron and steel in the United States were of war materials, we should have a total equal to less than half the amount required by this year's war program. In fact, moreover, not all of the existing plants will be devoted to the production of munitions. Much steel must be used in keeping existing munitions plants in repair; there are many industries ancillary to the business of war that require great quantities of steel, for maintenance and up-keep and for extensions; and there are other industries that will obtain some iron and steel even though such industries are non-essential for war purposes.

It follows from the foregoing analysis that if we are to procure the requisite production of iron and steel this year we must make up the deficiency in one of the following ways: first, by increasing the output of existing plants; second, by constructing new plants; or, third, by converting other industrial establishments into munitions factories. With reference to the first alternative the *Iron Age* tells us in a recent issue that all the existing plants, including the new construction of the past three years, are already producing virtually at full capacity.

The second alternative holds little more promise, for it usually requires more than a year to construct a steel plant; and steel is used, moreover, in the building of the plant itself. To build a large number of steel plants is therefore to consume large quantities of steel without any hope of return in the present year. I am not here arguing that no new plants should be constructed, for we must plan not for one year only but for several; I am merely pointing out that not much, if any, help may be expected from the second alternative during the first year.

The third alternative possesses a substantial advantage in that it utilizes existing industrial plants and thereby saves great quantities of structural steel. It reduces to a minimum the use of iron and steel in the process of procuring the means for new steel production; though conversion to new lines of manufacture obviously cannot be effected without the use of considerable quantities of iron and steel products, in the form of special machinery, if not in the plant itself. The third alternative also possesses an indispensable advantage in that it is quicker than the second; and speed is all-important. We must tremendously increase our output of iron and steel products in the shortest possible time if we

are to render our maximum aid in the struggle,—perchance if we are to win the war at all. The rehabilitation of our industrial plants for the manufacture of war materials is therefore the paramount requirement of the time.

In the foregoing analysis we have used iron and steel for illustration. The analysis applies, though perhaps in less degree, to the production of all the other forms of war supplies, khaki, cotton, wool, leather, food, wood, cement, brick, etc. If we are to render our maximum service in the war we must attract labor and capital into the production of these indispensable war supplies.

Now for the dangers of price control. Several forms of price control have been suggested in one source or another; but the one that is most commonly advocated,—the one that makes the strongest appeal to conservative public opinion, is price control based on cost of production. It is believed that industries, even those producing war supplies, are entitled to “reasonable” profits; and “reasonable” profits have to be reckoned from a basis of cost. Let us assume that six per cent is a reasonable profit; then a plant producing a commodity at a unit cost (including selling costs) of \$1.00, should be permitted to sell at not more than \$1.06. To the uninitiated the problem of price control seems, therefore, a relatively simple problem.

But there are varying costs in different plants engaged in the same line of activity. Plant A has a cost of \$1.00; plant B of \$1.10, and plant C of \$1.20. These differences of cost may be due to various causes: difference in location, difference in management, difference in volume of output, etc. But it is clear that the product of all is imperatively required. Price control, therefore, must not force any of them out of business. Now if the price fixed were \$1.06 it would give a reasonable profit to plant A but it would not even cover costs for plants B and C. The price must obviously be high enough to give a “reasonable” profit to the plant with the *highest* cost of production,—with *marginal* cost, to use the common term of the economist. This means concretely, in the case before us, a price of \$1.27. It should be noted, however, that this obviously means more than “reasonable” profits for all plants whose cost is less than \$1.20. It means in certain cases enormous rates of dividend for certain peculiarly efficient or peculiarly fortunate establishments.

This necessity of basing prices on the marginal or high-

est cost of production in existing plants has been discussed in various quarters of late. The President apparently had it in mind when he recently spoke of profits that would insure efficiency of production and make possible replacement and extensions as well. But thus far I have been unable to find any recognition of the necessity of using as the basis of price fixing a cost that is actually higher than the marginal cost in existing factories. What do I mean?

I mean that not only must price control not drive existing factories out of the production of war supplies, but that it must not cut off the inducements to business men to shift from non-war industries to war business. We have seen that the paramount necessity is industrial reorganization,—the shifting of labor and capital from lines of activity that are unimportant for war purposes to the lines that are imperatively necessary. Price control, in the interests of the general consuming public, or as a means of lessening the money costs of the Government for materials, must not be allowed to stand in the way of industrial mobilization. Let us consider the possible dangers.

X is a manufacturer of a commodity that is unimportant for war purposes. His plant could be made over into an establishment for the manufacture of war supplies at a cost of \$100,000. He reasons that since he has had no experience in this particular line of manufacture his management will not be very efficient the first year. Furthermore, his location is not favorable for this business; and his transportation costs for raw materials and unfinished products will therefore be unusually heavy. He knows that there is a scarcity of labor skilled in this line of work and that to get laborers at all he must offer high enough wages to induce them to leave steady positions elsewhere and cast their lot with him for a period of indefinite duration. He must therefore count on highly paid yet inefficient labor. He estimates his total outlay and finds that his cost would approximate \$1.40 per unit, as compared with a top cost of \$1.20 for existing plants in that line. That is to say, his cost would be \$1.40 if he could charge off depreciation on this \$100,000 expended in rehabilitation at the usual rate. But, the duration of the war is uncertain. It may be that he will have to re-rehabilitate his factory before he actually has a chance to manufacture war supplies. In any event there is sure to be a heavy, but indefinite, obsolescence factor, which must

be added as one of the costs of production. The exact total obviously becomes guess work; but let us assume that X could know that it would be not more than \$1.60. This is a high cost, but prices of war materials have been soaring rapidly and they bid fair soon to reach \$1.75 in this line. X has about decided to make the plunge, when the Government steps in and fixes a price based on costs in already existing munitions plants—a price of \$1.27, to use the illustrative case given above. Do we need to inquire further whether X will decide to manufacture war supplies?

It will be apparent that the danger of price control that is revealed in these illustrations is inherently related to the process of mobilizing our industries for war,—of directing the national energy into the most effective channels. In a preceding paragraph attention was called to the fact that in the present war the United States is beginning very early the agitation for effective price regulation. Now it is just because of this early start that the gravest dangers of price control have arisen. The sort of price regulation that is being advocated works at direct cross purposes with the paramount requirements of the hour. We must have more ships, more munitions, more supplies, more food than can possibly be produced with the present alignment of industry; wholesale reorganization of our industrial life is imperative. But if prices are fixed so low as to offer no adequate inducement to business men to shift to the lines of enterprise that are indispensable for war, it inevitably follows that industrial reorganization will be tremendously retarded,—that, to put it in its final terms, we will not secure the production of all the munitions and materials of war that are so imperatively necessary. The crux of our difficulty lies in the fact that in invoking price control in the interests of the Government as a purchaser of war supplies and of the general public as purchasers of consumers' goods, its advocates have utterly failed to recognize that it stands diametrically opposed to the shifting of industrial energy that is required. The argument assumes that it is only with existing producers of war supplies that we need be concerned. It is contended that we must not allow such individuals and corporations as chance to be fortunately placed in the industrial system to profit unduly from the war situation. We all sympathize with this idea, as a matter of course; but we must look beyond,—if we are to avoid the most serious consequences,—to the

effect of price regulation upon the rapid and effective mobilization of our industrial resources.

Is there, now, any means whereby we may extricate ourselves from the dilemma? Must we forego price control for the present year in order that industrial mobilization may be effected in the shortest possible time? Must we, if we choose to control prices in the interests of the many, incur the dire penalty of retarded mobilization,—of possible defeat? Is there no happy medium, no middle course that will avoid the shoals in either direction?

There appear to be three main alternatives before us. The *first* is to let prices adjust themselves at what level they may, under the working of unrestricted economic forces, and then to employ taxation of excess profits as the corrective. The necessary inducement would thus be left open for an increase of production in war lines. The price would adjust itself to the highest cost of production necessary to secure the requisite supply; and the extra profits of all those with costs less than this would be appropriated by the Government. This method of adjusting the difficulty is inadequate, however, for the reason that it does not alleviate the distress of the masses resulting from the high cost of living; and it therefore does not serve to strengthen the morale of the people and to develop a united and wholehearted support of the Government in the prosecution of the war.

The *second* alternative is to fix *nominal* prices,—and have the Government underwrite the losses of any concerns who cannot then produce at a profit. Under this system the prices fixed would doubtless be at approximately the level at which they stood before the war; that is, they would be customary prices. This method would obviously still require the use of excess profits taxation for such establishments as have costs below the normal; but it would possess the great merit of keeping down the cost of living for the lower classes. It is possible that so far as our problem relates to existing munitions factories, etc., this method might be employed with a fair degree of success. I say “fair” degree of success, for it must be remembered that the problems involved in ascertaining costs and reasonable profits in any establishment are baffling problems in themselves, as is also the enforcement of the price fixed. However, in time I believe we might succeed in working out a system that would be much superior to a condition of no regulation whatever; for after all, exist-

ing establishments may be in some degree reached by the appeal of patriotism; and in any event, aside from evasion of the law, they have no practical alternative other than to accept the price that is fixed and to trust the Government to make good any losses that may ultimately be shown. They cannot well go out of business; their best chance is to place their trust in the word of the Government.

But when it comes to inducing *additional* capital to engage in the production of war supplies this method is found to have very serious shortcomings. It must be observed that the method is a voluntary one. If a manufacturer does not wish to turn to the production of price controlled war supplies he does not need to do so. He has usually a profitable alternative, that of continuing to devote his plant to the production of supplies that are not adapted to war uses, but which yet enter into general consumption. It should be observed here that what the Government must promise, is to cover all costs incident to the transition into the war business; the losses due to high cost of operation while engaged in the manufacture of war supplies; and finally the losses incident to the transition back to peace-time industry in the period of reconstruction at the close of the war. Now there may be a few who would volunteer under these circumstances; but the general tendency in any event would be to delay as long as possible,—to delay perchance too long to be of any assistance in the prosecution of the war. If the dire need of the Government for supplies were fully appreciated in advance the difficulty here would doubtless be greatly minimized; but the plain, blunt truth is that we have as yet little conception of the enormous quantities of war material that will be demanded in the coming months, and the enormous shifting of industrial energy that must occur. Until very recently the assumption has been general that production in all lines ought to continue largely as usual,—that the war can be carried as an extra. Current discussion is practically all in terms of the present distribution of our industrial energy.

But even if the Government should definitely call for volunteers in this industrial shifting, and promise all who should respond that adequate profits would be *guaranteed* them, does it follow that the requisite industrial reorganization would promptly ensue? It must be granted certainly that it would succeed no better than the volunteer system of

raising troops; in fact, I believe it would be much less efficacious than the raising of volunteer armies. In the first place, the psychology of the situation is unfavorable to industrial volunteering. The industrial manager who turns to the manufacture of war supplies does not become an employee of the Government, with a chance of winning shoulder straps and decorations together with the undying gratitude of his fellow citizens. He is more likely to be regarded as a "profiteer." Again, a volunteer for the army merely has to enlist at a recruiting office; beyond that he has no personal responsibility,—his daily activities are controlled to the last degree by the army organization. But an industrial manager who volunteers his establishment for war purposes does not enter directly into the governmental organization, and the responsibility of reorganizing and managing the business remains as before. In the very nature of things, the process of industrial shifting cannot be co-ordinated under a volunteer system. At best it is a haphazard, time consuming, utterly inefficient method of industrial reorganization.

The *third* alternative is to fix nominal prices and underwrite the losses of those who cannot cover costs at the prices established, as in the previous method, but then resort to the method of conscription to secure the requisite productive energy in war lines. Such a method alone, it seems to me, will ensure industrial reorganization at minimum cost, with minimum uncertainty and—most important of all—in minimum time. Industrial conscription appears to be an imperative prerequisite to price-regulation, when such regulation is undertaken early in the war, before the mobilization of our industries has been accomplished.

To attempt to keep prices low and then at the same time to rely upon high prices as the inducement to industrial mobilization is obviously a flat contradiction and can result only in preventing the rapid reorganization of our industries. To substitute the method of government guaranty of reasonable profits, while relying upon *volunteers*, is better, yet wholly inadequate to meet the pressing requirements of the hour. To substitute for the volunteer system, the method of industrial conscription is simply to parallel in industrial mobilization the certainty and celerity that has been attained in military mobilization through the machinery of the selective draft.

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